



Attorney Docket No.: 021180-00053 (BRWN 20.199)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Inventors: Owen H. BROWN
David Neal JOSEPH

Serial No.: 10/010,340

Filed: December 5, 2001

Title: **SECURE DIGITAL ESCROW ACCOUNT TRANSACTION
SYSTEM AND METHOD**

Examiner: Gerald J. O'Connor

Group Art Unit: 3627

January 26, 2005

Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

DECLARATION OF ALAN S. KLEIN

S I R:

I, Alan S Klein, declare as follows:

1. I am currently employed as CEO/President, Ace Payroll Services, Inc. of which I am a 50% shareholder. I have held this position since December 1994. Ace Payroll Services, Inc. is among the larger independent payroll processors in the Northeast. I am also co-owner of Payroll Done Right operating Payroll Systems of Nevada.
2. I have worked in the financial services industry since July 1984 when I graduated from Fairleigh Dickinson University with a BS in accounting. During the early years of my career, prior to the formation of Ace Payroll Services, Inc. I worked in the public accounting arena where part of my function was to prepare payroll and sales tax returns

for my clients. Upon the formation of Ace Payroll Services, Inc. I left public accounting. Through Ace Payroll Services, Inc. I have had almost eleven years experience in the area of electronic collection and payment of taxes. In 2004 Ace Payroll Services, Inc. was responsible for the collection and submission of approximately \$200,000,000 in tax payments. A common theme from my accounting experience and my current conversations with accountants is the desire to outsource both payroll and sales tax processing. I have been asked many times by both accountants and clients if we could handle the sales tax process for them. To date the technology has not been set up to allow for sales tax processing.

3. I am familiar with the invention claimed in the above-referenced patent application, which has been characterized as:

A method for impounding escrow funds via electronic funds transfer (EFT) from credit/debit card transactions transacted between a merchant, a third party electronic funds processor (EFP) and one or more credit/debit card issuers interconnected by at least one computer network. Credit/debit card transactions are initiated by the merchant via a merchant point of sale (POS) terminal, are processed by the EFP, and are forwarded by the EFP to the credit/debit card issuers for authorization. Standard credit/debit card transactions currently performed include authorization requests made by the merchant, authorization request approvals granted by the credit/debit card issuers, payment requests made by the merchant concerning, and payments made by the credit/debit card issuers by EFT to the EFP, and then by EFT by the EFP to a merchant bank account. According to the method of the present invention, the EFP in addition performs the steps of:

receiving a payment request from the merchant for authorized transactions;
determining an escrow amount based on the transactions;
forwarding the payment request to the credit/debit card issuers;
receiving payment via EFT from credit/debit card issuers;
crediting a merchant escrow account by EFT with a payment for the escrow amount; and
crediting the merchant account by EFT with a net payment reduced by the escrow amount.

By means of this method, the escrow funds are effectively impounded as a result of the payment request made by the merchant, with no further merchant action required. Merchants benefit by taking a “passive” role as third parties (the EFP, an escrow account manager) instead assume fiduciary responsibility for calculating escrow amounts, impounding these amounts and making associated payments. Governments (who may wish to promote use of these escrow accounts as a means for collecting tax payments) obtain a secure, unified and simplified system for collection that reduces “the tax gap”. And the financial services industry obtains a new financial product to bring to the tax and credit card market, which may be leveraged to further promote other associated products and services (for example, payroll processing services).

4. In my opinion, the claimed invention represents a new invention that has not heretofore to my knowledge been practiced by anyone in the financial services business, including myself. The payroll processing industry is constantly reinventing itself with new product integration. A case in point is the integration of worker's compensation payments with payroll processing, a process that in the past required estimated payments and annual audits but since being integrated can now be calculated on an actual use basis. To my knowledge, there currently is no provision for electronic sales tax submission by an independent fiduciary. Much in the same way unemployment funds are impounded by payroll companies and paid at the required time, sales tax becomes a burden to a company when they have to write a large check. This system allows them to pay funds when collected and alleviates the burden of large back end payments. In my opinion the invention possesses substantial merit and incentive for adoption within the financial services industry and is not currently known or practiced, I believe that it cannot be considered as being obvious at the time of invention to someone skilled in the art (in other words, a practitioner in the financial services industry like me). We, as are all payroll companies are constantly looking for products that are synergistic with our current processing and tax payment services. This is a product that is clearly needed in the market. I do believe that if the invention were obvious the technology and process would have been implemented long ago by the national payroll companies (ADP, Paychex and Ceredian) as well as many of the regional payroll processors. In addition, to my knowledge, First Data Corporation, the largest facilitator of electronic funds transfer

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in the world and owner of tax software vendor Taxware, does not offer product/service solution based on or similar to this invention.

5. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the Untied States Code and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.



Alan S. Klein

2/28/05
Date